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Order 2004-3-34
Served: March 31, 2004

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.



Issued by the Department of Transportation
on the 31st day of March, 2004

INTRA ALASKA BUSH SERVICE MAIL RATES

Docket OST-2003-14694--107

ORDER SETTING FINAL RATE UNTIL FURTHER DEPARTMENT ACTION

Summary

By this order, the Department is setting the linehaul portion of the mail rate payable by the United States Postal Service to intra-Alaska bush mail carriers providing service with amphibious aircraft certificated by the manufacturer for 3 seats or more. This rate will be effective immediately on a final basis, not subject to retroactive adjustment, and will remain in effect until further Department action.¹ The current terminal element of intra-Alaska bush rates is unaffected by this order. Likewise, the rates for bush carriers in markets where amphibious operations are not required remain unchanged.

Background

The Rural Service Improvement Act of 2002 (RSIA) directed the Department to set three separate bush mail rates: one for larger bush aircraft certificated for 19 seats or more and operated under 14 CFR Part 121 (Part 121 rate); one for aircraft operating into airports requiring float or amphibious equipment (Amphibious rate); and one for all other aircraft (Part 135 rate). Order 2004-2-12 calculated a Part 121 linehaul rate of \$4.5271, significantly lower than the prior

¹ The Postal Service compensates carriers on a weekly basis and implements any changes on Saturdays, the beginning of its pay week. Thus, the rate we are setting here will be effective on the first Saturday after the date of service of this order.

rate of \$11.1627 that had applied throughout Alaska for all bush aircraft.² As discussed in Orders 2003-10-10 and 2004-2-12, the Part 121 rate would only apply where at least one carrier schedules and operates at least one round trip per week with aircraft certificated by the manufacturer for 19 or more seats and operated under Part 121 of the Federal Aviation Administration's Regulations. The Amphibious rate would apply wherever service with amphibious aircraft is required, and the Part 135 rate, which we have not yet calculated, would apply everywhere else.

Decision

This order uses a fully-allocated costing methodology to determine the Amphibious linehaul rate, which is detailed in Appendix A. The data are for the year ended June 30, 2003, and are from the carriers' T-100 traffic reports and Schedule F-2 financial statements. We have applied the same costing techniques here as used when we set the Part 121 linehaul rate in Order 2004-2-12. We have adjusted expenses to account for capacity-related expense, as well as return and taxes. The rate calculates a separate capacity-related expense for each carrier as a percentage of all other operating expense, and this percentage is then applied to linehaul expenses. A system return and tax element of 9.46 percent, determined in the past base-rate investigation, is again applied to each carrier's expenses. Consistent with our previous treatment of both the bush and mainline rates, we have weighted carrier's costs by the amount of mail transported by each carrier, so that the impact of a large carrier that transported little mail would not be overstated. Finally, to reflect the fact that the Postal Service applies the rate we are setting here based on the shortest possible distance, regardless of the perhaps longer as-flown routing, we have increased the rate by a circuitry factor, as determined for each carrier. As set forth in Appendix A, we find that the linehaul costs of amphibious bush aircraft are, as anticipated by RSIA, substantially higher than the current single bush mail rate set in Order 2002-8-7. With this order, the carriers operating these more expensive aircraft will immediately begin realizing the greater mail revenue reflective of the more expensive amphibious operations.

The current bush linehaul rate is \$11.1627 per mail revenue ton mile (RTM), and the rate we are setting here of \$19.0081 is almost double that amount. We will leave in effect for now the current single linehaul rate³ for the remaining Part 135 carriers, wherever it applies under RSIA. As we did when implementing the lower Part 121 rate, we will make the Amphibious rate effective on the service date of this order, but allow for objections.⁴

The Postal Service has provided us with a list of 20 communities where operations with wheeled aircraft are impossible. As discussed in Order 2003-10-10, the Postal Service should not be required to pay the higher Amphibious rate in markets that can be served by wheeled aircraft.

² Aircraft having payloads exceeding 7,500 pounds are classified as mainline, while bush aircraft have payloads of 7,500 pounds or less, regardless of the number of seats. As a point of reference, the Saab 340, the largest bush aircraft currently operating with just under 7,500 pounds payload, can be configured with up to 34 seats.

³ The current single bush rate was last updated by Order 2002-8-7, which made a final adjustment to the mail rate for changes in fuel prices.

⁴ The filing of objections will not stay the effectiveness of this order. Any rate changes will be prospective.

We will follow this order with the Part 135 linehaul rate and a single terminal rate for all bush carriers.

ACCORDINGLY,

1. We make final the rate per mail revenue ton mile shown in Appendix A per billable (nonstop) mail revenue ton mile, for markets where operations with wheeled aircraft are not possible, effective with the first complete Postal Service pay week following the service date of this order,⁵ until further Department action;
2. Parties wishing to object to this order may file objections within 30 days of the service date of this order. Any objection should contain clear and specific objections to how the rates were calculated, and state what methodology should be employed. The filing of objections will not stay the effectiveness of this order; and
3. We will serve this on the parties to this proceeding.

By:

KARAN K. BHATIA
Assistant Secretary for Aviation
and International Affairs

(SEAL)

⁵ The Postal Service has indicated that the mail pay periods for carriers start on each Saturday. Although Order 2004-2-21 established a lower rate to be effective immediately, the Postal Service delayed applying that lower rate so that carriers would not be paid different rates for the same calendar week.

System Parameters										
	Iliamna	Island	Peninsula	Promech	Seaplane	Wings				
1 . Capacity Related Expense (CR), Skd. F-2	\$90,318	\$457,128	\$5,019,360	\$394,517	\$64,636	\$419,806				
2 . Direct Expense, including fuel, Skd. F-2	\$1,338,376	\$1,334,053	\$25,548,757	\$3,991,727	\$621,088	\$2,264,746				
3 . Indirect Expense, Skd. F-2	\$316,860	\$1,037,880	\$15,104,295	\$2,516,704	\$278,710	\$1,622,905				
4 . CR Markup: [1/(2+3-1)]+1 1/	105.77%	123.87%	114.09%	106.45%	107.74%	112.11%				
5 . Return and Tax Markup 2/	109.46%	109.46%	109.46%	109.46%	109.46%	109.46%				
6 . T-100 Segment Skd. Mail RTMs, As-Flown	9,729	12,842	789,357	25,420	5,789	28,995				
7 . T-100 Market Mail RTMs, Nonstop	9,261	10,219	903,399	23,395	5,493	29,239				
8 . Circuity Factor, [6/7] 3/	105.05%	125.67%	100.00%	108.66%	105.39%	100.00%				
Costs By Aircraft Type										
Carrier	Iliamna	Island	Peninsula	Promech	Promech	Promech	Promech	Seaplane	Wings	Wings
Aircraft Type	#40	#35	#170	#33	#40	#42	#485	#40	#35 & #40	#42
9 . Fuel, Skd. F-2	\$47,504	\$17,557	\$114,771	\$24,842	\$170,395	\$143,697	\$44,315	\$97,301	\$90,029	\$36,235
10 . Eligible Expense, (Directs-Liab. Insur.-Fuel) Skd. F-2)	\$90,645	\$152,832	\$926,778	\$135,499	\$1,309,749	\$1,258,240	\$620,195	\$507,429	\$528,645	\$259,076
11 . Linehaul Expense Allocable to Mail [9+10] 4/	\$138,149	\$170,389	\$1,041,549	\$160,341	\$1,480,144	\$1,401,937	\$664,510	\$604,730	\$618,674	\$295,311
Increase Linehaul Expense Allocable to Mail by the System Markups										
12 . Linehaul + CR [11*4]	\$146,120	\$211,061	\$1,188,303	\$170,683	\$1,575,613	\$1,492,362	\$707,371	\$651,536	\$693,595	\$331,073
13 . Linehaul +CR + Return and Tax [12*5]	\$159,943	\$231,027	\$1,300,716	\$186,830	\$1,724,666	\$1,633,539	\$774,288	\$713,171	\$759,209	\$362,393
14 . Linehaul + CR + Return and Tax + Circuity [13*8]	\$168,020	\$290,332	\$1,300,716	\$203,009	\$1,874,022	\$1,775,003	\$841,341	\$751,611	\$759,209	\$362,393
Allocate Expenses to Scheduled Passenger Service on the Basis of Block Hours										
15 . System Rev. Blk. Hrs., T-100 Segment	550	478	906	503	5,507	2,989	906	1,629	1,404	592
16 . Skd. Rev. Blk. Hrs. in Pax. Service T-100 Segment	45	458	860	169	3,323	1,385	12	1,177	819	380
17 . Linehaul Expense in Pax. Service [14*16/15] 6/	\$13,747	\$278,184	\$1,234,675	\$68,208	\$1,130,811	\$822,475	\$11,144	\$543,061	\$442,872	\$232,617
Determine Unit Cost per Weighted Revenue Ton Mile										
18 . Skd. Passenger RTMs in Pax. Svc., T-100 Segment	481	9,246	20,601	1,894	56,877	43,418	611	18,882	18,005	15,388
19 . Skd. Mail RTMs in Pax. Svc., T-100 Segment	151	1,885	3,747	307	14,193	10,842	78	5,752	2,731	1,788
20 . Skd. Freight RTMs in Pax. Svc., T-100 Segment	18	938	2,700	123	7,265	4,431	129	3,585	2,497	1,355
21 . Total RTMs, with Frt. Wtd. @ 75% [18+19+20*.75] 7/	646	11,835	26,373	2,293	76,519	57,583	786	27,323	22,609	18,192
22 . Unit Cost per Wtd. RTM [17/21]	\$21.2802	\$23.5052	\$46.8159	\$29.7462	\$14.7782	\$14.2833	\$14.1781	\$19.8756	\$19.5883	\$12.7868
Mail RTMs Total, Sum Across of Line 19										
										41,474
Unit Cost of Mail Weighted by Volume of Mail										
23 . Mail Percentage, Cells in Line 19 divided by 876,690	0.36%	4.55%	9.03%	0.74%	34.22%	26.14%	0.19%	13.87%	6.58%	4.31%
24 . Unit Cost, Wtd. By Mail RTMs As-Flown [22*23]	\$0.0766	\$1.0695	\$4.2275	\$0.2201	\$5.0571	\$3.7337	\$0.0269	\$2.7567	\$1.2889	\$0.5511
Avg. Cost, Wtd. By Mail Volume, Sum Across of Line 24										
										\$19.0081
Implicit Load Factor, For Reference										
25 . ATMs in Skd. Service, T-100 Segment, Class F & G	2,727	49,884	59,080	5,291	183,124	129,993	2,327	65,243	53,508	35,291
26 . Load Factor, [(18+19+20)/25] 8/	23.84%	24.19%	45.78%	43.92%	42.78%	45.15%	35.15%	43.25%	43.42%	52.51%

1/ Numbers in brackets refer to line numbers.

2/ Per Order 90-10-34, Appendix F.

3/ Nonstop Mail RTMs cannot exceed As-flown Mail RTMs, so circuity is forced to Zero.

4/ Includes Fuel, excludes Passenger Liability Expense.

5/ Calculation excludes non-scheduled and all-cargo costs.

6/ Total RTMs weights Freight RTMs at .75, per Order 90-10-34.

7/ The Load Factor calculation per se, lines 25 thru 26, does not affect the rate. However, if RTMs of traffic doubled with no increase in ATMs, then load factor would double. If other things stayed the same, the rate would be cut in half.

Note: Taquan not included because their data was found to be unreliable.